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Annual Report 1951

INTERSTATE DEPARTMENT STORES, INC.

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

Robert S. Adler	R. C. Kramer
Paul I. Bertram	Harold F. Linder
Russell P. Bygel	Benjamin W. Mayer
Sol W. Cantor	Albert Parker
Charles E. Federman	Herbert J. Reeves
Paolino Gerli	Murray D. Safanie
Harry C. Kilpatrick	Harold J. Szold

OFFICERS

Chairman of the Board.......R. C. Kramer

President.......Russell P. Bygel

Executive Vice President.......Sol W. Cantor

Treasurer.......Paul I. Bertram

Secretary.......Albert Parker

Assistant Secretary.......Edward C. Schenkel

Transfer Agent.......Bank of the Manhattan Company..New York

Registrar.......The Chase National Bank of the City of New York.......New York

General Counsel.......Parker, Chapin and Flattau.......New York

Public Accountants.......S. D. Leidesdorf & Co. ....New York

Executive and General Offices......111 Eighth Avenue ....New York

April 21, 1952.

To the Stockholders of

INTERSTATE DEPARTMENT STORES, INC.

This is the report of INTERSTATE DEPARTMENT STORES, INC. and its subsidiaries for the fiscal year ended January 31, 1952.

The year's operations, and a comparison with the results for the previous fiscal year, with inventories of certain stores and departments valued on a Last-In, First-Out (LIFO) basis, are summarized as follows:

	Fiscal Year Ended	
	Jan. 31, 1952	Jan. 31, 1951
Sales	$64,853,100	$65,508,300
Earnings before Federal Income Taxes	2,319,900	3,320,100
Net Earnings after Federal Income Taxes	1,293,900	1,993,100
Earnings per share of Common Stock	4.20	6.45
Dividends paid per share of Common Stock	2.50	2.125
Stockholders' Equity per share of Common Stock	41.20	39.46

EARNINGS: Earnings for the fiscal year ended January 31, 1951 had included $186,900 of non-recurring items. The decrease in earnings of $512,300 from normal operations during the fiscal year just ended was principally caused by the lower gross margins arising from unsettled market conditions throughout most of the year and some increase in expense, due primarily to wage increases of employees.

SALES: Sales decreased $655,200. Consolidated sales for the past five years have been as follows:

Fiscal Year Ended January 31	Owned Departments	Leased Departments	Total
1952	$56,500,000	$8,300,000	$64,800,000
1951	57,100,000	8,400,000	65,500,000
1950	52,000,000	9,700,000	61,700,000
1949	57,200,000	9,700,000	66,900,000
1948	52,900,000	9,900,000	62,800,000

Sales of owned departments decreased 1.0% and sales of leased departments decreased .7%.

STORES OPENED AND CLOSED: A new store was opened in Vincennes, Indiana on November 15, 1951.

Construction of a new store is under way in Evansville, Indiana, which is expected to open about November, 1952. This modern, fully air-conditioned store will be the largest in our Company and replaces the "Economy" store, in the same city, which was destroyed by fire in January, 1951.

A small store in Edgerton, Wisconsin was closed in October, 1951.

BUILDINGS, EQUIPMENT AND FIXTURES: The Company spent $1,200,000 for the modernization and improvement of its properties during the year. Included in this amount was the cost of an expansion of the store in Knoxville, Tennessee and the beginning of a major remodeling and expansion of the store in Waukegan, Illinois. Depreciation and amortization charged to expense increased from $575,000 to $630,000. In addition, expenditures for maintenance and repairs charged to expense during the year amounted to $350,000.

WORKING CAPITAL: Working capital decreased $1,000,000 to $12,700,000 at year end. Of this decrease, $750,000 resulted from the repayment of long term bank loans during the year.

Accounts receivable, which represent largely time payment accounts, show a decrease of $1,000,000 resulted principally from government restrictions on installment credit. An increase in sales of merchandise not restricted by government regulations enabled the Company to have the same proportion of business transacted on a time payment basis, as in the previous year. The average maturities of installment accounts are about 20% shorter than those prevailing in the prior year.

Inventories at year end were $1,400,000 less than at January 31, 1951. Commitments for future purchases were $2,400,000 compared with $7,400,000 last year and $3,500,000 at January 31, 1950.

DIVIDENDS: Dividends of $2.50 per share were paid on the Common Stock during the year. The regular quarterly dividend of 62½¢ per share for the first quarter of the current fiscal year was paid on April 14th.

ASSET VALUE: The net asset value of the Common Stock of the Company as shown by its Balance Sheet was $41.20 per share at year end. The net asset value, earnings and dividends per share of Common Stock for the past five years have been as follows:

As at January 31	Asset Value Per Share	Earnings Per Share	Dividend Per Share
1952	$41.20	$4.20	$2.50
1951	39.46	6.45	2.125
1950	35.13	3.76	2.00
1949	33.38	5.15	2.00
1948	30.23	4.62	2.00

STOCKHOLDERS: The number of registered stockholders of the Company of record on September 20, 1951 was 2,535. Of this number, 2,529 were located in 47 of the 48 States and six of the Company's stockholders were residents of three foreign countries. The majority of stockholders, 1,618, owned less than 100 shares each, 873 owned between 100-999 shares each and only 44 stockholders owned 1,000 or more shares each. Of the total shares outstanding, 110,000 are registered in the names of 141 stock brokers and nominees.

OUTLOOK: Retail sales in the first half of this year should at least equal those of last year although they were below last year in February and March. Prices are well below those prevailing last Spring and a larger physical volume of goods must be sold to equal last year's dollar sales.

Prices dropped for the last nine months of the previous fiscal year and continue soft as of the date of this report. This price decline has caused heavier markdowns and some inventory losses. There are signs, however, of more stability in the markets and that the decline in prices has run its course.

Increase in cost of doing business continues to be a serious problem and it will be aggravated in 1952 by the necessity of selling more units to equal last year's dollar sales.

The stores of your Company are in the best physical condition in their history. The Company is adequately financed for its present volume of business. The organization of the Company continues to improve. We expect to meet the problems and opportunities of 1952 successfully.

For the Board of Directors,

R. C. Kramer, *Chairman*

Russell P. Bygel, *President*

CONSOLIDATED BALANCE SHE

ASSETS

	1952		1951	
Current Assets:				
Cash on hand and in banks		$ 1,016,496		$ 623,793
Accounts receivable:				
Customers	$5,146,202		$6,230,860	
Less: Reserves	587,453	4,558,749	651,185	5,579,675
Other		363,375		541,004
Merchandise inventories (Note A)		11,622,903		13,037,519
Total Current Assets		17,561,523		19,781,991
Other Assets		125,130		68,973
Fixed Assets—at cost:				
Land and buildings (subject to mortgages—per contra)	$ 431,441		$ 506,918	
Less: Reserves for depreciation	49,513		34,818	
	$ 381,928		$ 472,100	
Furniture and equipment	$3,550,556		$3,145,932	
Less: Reserves for depreciation	1,247,591		1,183,399	
	$2,302,965		$1,962,533	
Leaseholds and leasehold improvements	$1,937,611		$1,637,916	
Less: Reserves for amortization	957,951		788,732	
	$ 979,660		$ 849,184	
Construction in progress	$ 93,856	3,758,409	—	3,283,817
Deferred Charges		441,659		353,178
		$21,886,721		$23,487,959

The Notes to Financial Statements are an integral part o

TMENT STORES, INC.

RY COMPANIES

ET AS AT JANUARY 31, 1952-1951

LIABILITIES

	1952		1951	
CURRENT LIABILITIES:				
Note payable, current installment (Note B)		$ 75,000		
Accounts payable—trade		2,038,384		$ 3,000,368
Accrued expenses and sundry other liabilities		1,089,199		1,292,311
Taxes withheld and accrued, other than Federal taxes on income		418,885		403,520
Accrued Federal taxes on income		1,246,449		1,407,888
Total Current Liabilities		4,867,917		6,104,087
LONG-TERM DEBT:				
Notes payable (Note B)	$3,950,000		$4,775,000	
Mortgages payable	284,439	4,234,439	302,682	5,077,682
Total Liabilities		9,102,356		11,181,769
DEFERRED INCOME—CARRYING CHARGES		93,719		114,574
STOCKHOLDERS' EQUITY (Notes A, B and C)		12,690,646		12,191,616
LEASE COMMITMENTS (Note D)				
		$21,886,721		$23,487,959

f this statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended January 31, 1952-1951

	1952	1951
NET SALES:		
Owned departments	$56,511,107	$57,107,309
Leased departments	8,342.026	8,400,994
	64,853,133	65,508,303
COST OF SALES, operating and administrative expenses, including depreciation and amortization of $630,323 for 1952 and $577,472 for 1951 (Note A)	62,532,948	62,148,971
	2,320,185	3,359,332
OTHER INCOME—net	214,974	129,711
	2,535,159	3,489,043
INTEREST EXPENSE	215,174	168,905
NET EARNINGS BEFORE FEDERAL TAXES ON INCOME (Note A)	2,319,985	3,320,138
PROVISION FOR FEDERAL TAXES ON INCOME	1,026,000	1,327,000
NET EARNINGS (Note A)	$ 1,293,985	$ 1,993,138

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Year Ended January 31, 1952-1951

	1952	1951
EARNINGS PREVIOUSLY RETAINED IN THE BUSINESS (EARNED SURPLUS) (Note A)	$ 8,695,415	$ 7,358,050
NET EARNINGS (Note A)	1,293,985	1,993,138
	9,989,400	9,351,188
CASH DIVIDENDS PAID	770,564	655,773
EARNINGS RETAINED FOR USE IN THE BUSINESS	$ 9,218,836	$ 8,695,415
CAPITAL SURPLUS as at January 31, 1951-1950	$ 1,915,949	$ 1,915,949
Excess of market value over acquisition cost of treasury stock issued as compensation to employees	2,109	
CAPITAL SURPLUS as at January 31, 1952-1951	$ 1,918,058	$ 1,915,949
COMMON STOCK—without par value (Note C):		
Authorized 500,000 shares		
Issued 308,946 shares	$ 1,580,252	$ 1,580,252
	$12,717,146	$12,191,616
Less: 946 shares of Common Stock held in treasury—at cost	26,500	
STOCKHOLDERS' EQUITY (Notes A, B and C)	$12,690,646	$12,191,616

The Notes to Financial Statements are an integral part of these statements and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

As at January 31, 1952

NOTE A—Merchandise Inventories:

Merchandise inventories include merchandise in transit amounting to $1,014,667 as at January 31, 1952 and $1,571,231 as at January 31, 1951 based on specific invoice cost.

Merchandise inventories at stores are based on the retail method at (a) cost as determined on the "last-in, first-out" basis, or (b) the lower of cost or market after provision for markdowns based on age of merchandise.

Merchandise inventories at warehouses are priced at the lower of cost or replacement market.

Prior to February 1, 1950, store operating subsidiaries of the Company priced their merchandise inventories at the lower of cost or market as calculated by the retail method of inventory valuation after provision for markdowns based on age of merchandise. At January 31, 1951, certain of these subsidiaries changed their method of pricing the merchandise inventories of certain departments to cost as calculated by the retail method on the "last-in, first-out" basis. The application of this method was revised for Federal income tax purposes subsequent to the publication of the annual report for the year ended January 31, 1951 and as a result thereof the consolidated net earnings for that year, as previously reported, have been reduced by $70,501 (or $113,501 before Federal taxes on income). The consolidated net earnings, as revised, for the year ended January 31, 1951 would have been approximately $71,500 and $184,500 less, before and after Federal taxes on income, respectively, if the change to the "last-in, first-out" basis had not been made.

NOTE B—Notes payable as at January 31, 1952 are due to:

Bank	$1,250,000
Insurance company	2,775,000
	$4,025,000

The bank loan, evidenced by 90 day notes, was made pursuant to the terms of a credit agreement under which the Company may borrow, repay and reborrow up to $3,500,000 for a three year period from November 1, 1950. Interest is to be at a rate per annum equal to the prime commercial discount rate of the Bank in effect on the date of such note. After the expiration of the three year period, at the option of the Company, it may borrow on November 2, 1953 up to $3,500,000, repayable in seven equal annual installments beginning November 1, 1954 at an annual interest rate of not less than 2½% nor more than 3¼%, determined as prescribed in the credit agreement.

The note payable to an insurance company requires annual amortization payments as follows: $75,000 through 1955, $200,000 from 1956 through 1958, $325,000 in 1959, $350,000 from 1960 through 1962 and $500,000 in 1963.

The loan agreement with the insurance company and the bank credit agreement contain, among other things, restrictions on the right of the Company to declare

NOTES TO FINANCIAL STATEMENTS — (Continued)

dividends (other than stock dividends) and reduce its capital stock, including, with respect to the insurance company loan agreement, a requirement that, after giving effect to the payment of such dividends, there are prescribed ratios of consolidated net current assets and of consolidated net tangible assets to consolidated funded debt. As at January 31, 1952, approximately $2,200,000 of the consolidated surplus of $11,136,894 was not subject to the dividend restrictions contained in the aforementioned agreements.

NOTE C—A stock option plan for officers and key employees of the Company and its subsidiaries authorizes the granting of options to purchase not in excess of 25,000 shares of the Common Stock of the Company. Options granted in the prior year for the purchase of an aggregate of 12,000 shares at $31.5875 per share are outstanding at January 31, 1952.

NOTE D—At January 31, 1952, the minimum annual rentals upon property leased to the Company and/or to its subsidiaries under 66 leases expiring after January 31, 1955 amount to approximately $1,056,000, plus real estate taxes, insurance, etc.

GENERAL—Commitments for construction of improvements and buildings on leased premises amounted to approximately $2,900,000 as at January 31, 1952.

The accompanying financial statements are subject to final determination of Federal, state and local taxes. Federal income tax returns have been examined through the fiscal year ended January 31, 1948, and all assessments or refunds have been paid or collected.

S. D. LEIDESDORF & CO.

Certified Public Accountants

ACCOUNTANTS' REPORT

To the Board of Directors
INTERSTATE DEPARTMENT STORES, INC.
New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1952 and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Previously, we made a similar examination of the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1951 and the related consolidated statements of earnings and stockholders' equity for the year then ended.

The consolidated net earnings for the year ended January 31, 1951, as previously reported, have been reduced by $70,501 (or $113,501 before Federal taxes on income). This adjustment gives effect to revised valuations, which we approve, of certain inventories computed on the "last-in, first-out" basis, as adopted at January 31, 1951 (see Note A of the notes to financial statements).

In our opinion, the accompanying consolidated balance sheets and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1952 and 1951, and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the changes commented upon in the preceding paragraph.

S. D. LEIDESDORF & CO.

New York, N. Y.
April 15, 1952

LOCATION AND NAME OF STORES

CONNECTICUT

New Haven	Stanley's

ILLINOIS

Aurora	Aurora Dry Goods Co.
Belleville	Carroll House
Decatur	Decatur Dry Goods Co.
Peoria	Peoria Dry Goods Co.
Rockford	Rockford Dry Goods Co.
Springfield	Springfield Dry Goods Co.
Waukegan	Waukegan Dry Goods Co.

INDIANA

Anderson	Hill's
Evansville	Evansville Dry Goods Co.
Fort Wayne	Grand Leader
Huntington	Carroll House
Marion	Hill's
Muncie	Stillman's
South Bend	Grand Leader
Vincennes	Hill's

IOWA

Davenport	Hill's
Des Moines	Hill's

KENTUCKY

Louisville	Jefferson Dry Goods Co.
Paducah	Paducah Dry Goods Co.

MICHIGAN

Battle Creek	Grand Leader
Flint	The Fair
Jackson	Stillman's
Lansing	Lansing Dry Goods Co.
Port Huron	Carroll House

NEW YORK

Troy	Stanley's
Utica	Boston Store

OHIO

Akron	Federman's
Springfield	Boston Store

PENNSYLVANIA

Muncy	Carroll House
Reading	Read's
Williamsport	Carroll House
York	Stillman's

TENNESSEE

Knoxville	Knox Dry Goods Co.

VIRGINIA

Staunton	Carroll House

WEST VIRGINIA

Huntington	Huntington Dry Goods Co.

WISCONSIN

Fond du Lac	Fond du Lac Dry Goods Co.
Green Bay	Hill's
Hartford	Carroll House
Madison	Hill's
Milwaukee	Hill's
Racine	Racine Dry Goods Co.
Sheboygan	Hill's Department Store
West Bend	Carroll House

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